

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE DEPARTMENT OF OPERATIONAL SERVICES, FLEET SERVICES DIVISION

INTERNAL AUDIT REPORT 080409-02

February 11, 2009



February 11, 2009

Councilman Ron Webb
Chairman, Shreveport City Council

Dear Councilman Webb:

Subject: IAR 080409-02, Audit of The Department of Operational Services, Fleet Services Division

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY

AUDIT OF THE

DEPARTMENT OF OPERATIONAL SERVICES

FLEET SERVICES DIVISION

INTERNAL AUDIT REPORT (IAR) 080409-02

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Fleet Services Division manages all functions associated with motor vehicles owned by the city and is responsible for a variety of related equipment maintenance and repair requirements. It operates three vehicle/equipment repair shops; the Light Equipment Shop located on Snow Street, the Medium Equipment Shop on Kings Highway, and the Heavy Equipment Shop located at the Streets and Drainage Division facility on Mansfield Road. ***(Auditor's Comment: Operations for the Light Equipment Shop will be transferred out of the Fleet Services Division in 2009 and budgeted in the Police Department.)***

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains 9 findings with 22 recommendations to address the observed deficient conditions.

Risk Levels	Recommendations
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	<ul style="list-style-type: none"> • Ensure that adequate supply management guidance procedures and controls are adopted to ensure proper accountability of operating assets and related supplies. Conduct operations consistent with developed written guidelines addressing the need for viable maintenance and inventory control procedures. Ensure that employees are thoroughly familiar and comply with established policies and procedures pertaining to division activities. (Findings 1, 2 and 3)
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	<ul style="list-style-type: none"> • Ensure that employee time and attendance policies and procedures are adequately monitored and enforced. Procure and install the necessary software to ensure effectiveness and efficiency of inventory control practices. (Finding 4 and 5)
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	<ul style="list-style-type: none"> • Develop adequate written procedures requiring adequate documentation on all tires disposed of; whether discarded or provided to a contractor for retreading. Establish operating policies to schedule all city-owned vehicles for periodic tire maintenance and rotation procedures. Ensure that employee files contain complete and accurate records. Develop procedures to encourage employment of adequately trained employees (Findings 6, 7, 8, and 9)

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AUDIT OF THE DEPARTMENT OF OPERATIONAL SERVICES FLEET SERVICES DIVISION INTERNAL AUDIT REPORT (IAR) 080409-02

OBJECTIVE

We have completed an audit of the Department of Operational Services, Fleet Services Division. The objective of the audit was to determine the economy and efficiency of the division's operations.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards as defined in Section A.20 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general controls surrounding our objectives for the current operating period. Audit procedures applied included the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.
- Observing operations.

BACKGROUND

The Fleet Services Division manages all functions associated with motor vehicles owned by the city and is responsible for a variety of related equipment maintenance and repair requirements. It operates three vehicle/equipment repair shops; the Light Equipment Shop located on Snow Street, the Medium Equipment Shop on Kings Highway, and the Heavy Equipment Shop located at the Streets and Drainage Division facility on Mansfield Road.

(Auditor's Comment: Operations for the Light Equipment Shop will be transferred out of the Fleet Services Division in 2009 and budgeted in the Police Department.)

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

We wish to express our sincere appreciation to employees of the Fleet Services Division for their invaluable assistance during the course of our fieldwork.

Based on the results of our audit, we believe that management could enhance the division's control environment by addressing the discrepancies summarized below:

- Ensure that adequate supply management guidance procedures and controls are adopted to ensure proper accountability of operating assets and related supplies.
- Conduct operations consistent with developed written guidelines addressing the need for viable maintenance and inventory control procedures.
- Conduct and record a physical inventory of all assets maintained as soon as possible.
- Ensure that employees are thoroughly familiar and comply with established policies and procedures pertaining to division activities.
- Ensure that employee time and attendance policies and procedures are adequately monitored and enforced.
- Procure and install the necessary automated software to ensure effectiveness and efficiency of inventory control practices.
- Develop adequate procedures requiring adequate documentation on all tires disposed of; whether discarded or provided to a contractor for retreading.
- Establish operating policies to schedule all city-owned vehicles for periodic tire maintenance and rotation procedures.
- Ensure that employee files contain complete and accurate records.
- Develop procedures to encourage employment of adequately trained employees

1. Controls Exercised Over Tires and Other Equipment

Criteria: To maintain established levels of equipment and supply items needed to provide services, an adequate system of internal controls should be established to facilitate their accountability and management.

Condition: Procedures in effect to control and use supplies and equipment procured by the division were in dire need of management attention. Our sample inventory tests of assets on-hand showed the following weaknesses:

- Several vehicle tires and other assets were on-hand but not included on related inventory records. Operating personnel stated that these assets were procured long ago to repair motor vehicles which are now no longer owned by the city. We were unable to determine their acquisition value.
- Inventory records listed 37 tires intended for use on emergency road service situations. These assets were of various sizes, listed as "spares," and shown with an overall value of \$151.65. Inventory records did not indicate their specific size or true cost. However, we estimated their value at \$7,433.45.
- A sizable amount of tires had been transferred to the Streets & Drainage Division for use as spares in case of emergencies. However, they were not included on inventory records maintained at Fleet Services or at Streets and Drainage.
- The tires cited above were received as spares on new vehicles purchased and were not branded or marked as City of Shreveport property.

Effect:

- Inaccurate accountability over assets on-hand.
- Mismanagement of assets procured.
- Inability to ascertain value of assets on-hand.
- Simplification and expedited inventory control procedures not being attained.
- Risk of fraud, waste and abuse of government-owned assets.

Cause: Ineffective operational supervision of assets maintained.

Recommendations: The Deputy Director, Public Works Division, should ensure that:

1. A physical inventory of all assets maintained by the division is conducted and the results accurately recorded as soon as possible.
2. The acquisition value of all assets on-hand is properly recorded on inventory records.
3. There is an accurate accounting of all transfers of assets to other operating locations.
4. The division's activities are conducted consistent with related written guidelines.
5. All tires are adequately branded or marked as City of Shreveport property prior to being installed on city vehicles.

Management Plan of Action: All tires will be entered into the Inventory system upon arrival by the Warehouse supervisor or his designee. Once in our inventory system they will show the location and cost. When a tire is placed on a vehicle or transferred to another location it will be reflected in the system. There were 37 tires on the Service Truck at the time of inventory that were not available for inventory, those tires were valued at an estimated value of \$7,433.45. The tires located at Streets & Drainage were spare tires that had been purchased with vehicles. All tires received will have COS engraved in the tire and a distinctive number for identification. A system has been put in place to accurately track dispensing of all fluids for packers and other equipment. A software program has been purchased for bar code scanning of all parts/tires. Hardware is already in place and we are trying to get this system running for daily use but are experiencing problems since the vendor is out of state. Tighter methods of control are being reviewed to ensure security and accuracy in the parts storeroom.

Timetable: May 30, 2009

2. Accuracy of Vehicle Asset Data System

Criteria: A current listing of all motor vehicle assets owned by the city provides management accurate and complete information on the fleet's operational readiness

and its related monetary value. Responsibility for maintaining accurate inventory and related depreciation data has been assigned to the Finance Department's Accounting Division.

Condition: Motor vehicle data included in the ***FASTER*** inventory control system maintained by the Fleet Services Division was inaccurate and incomplete. Information included thereon showed numerous discrepancies pertaining to the serviceability of vehicles in use. For example, a large number of the vehicles listed on the ***Equipment Cost Information – Detail Report***, dated October 10, 2008, did not indicate their acquisition cost or depreciated value.

Effect: Data depicted on the system could erroneously differ from that included in financial statement reporting considerations.

Cause: Financial value of data reported not considered by management.

Recommendations: The Deputy Director, Public Works Division, should ensure that data contained in the ***FASTER*** inventory control system is revised to identify the city's vehicle assets consistently with related data maintained by the Finance Department. The revision should consider identifying the current operational status and applicable acquisition/depreciated value of all motor vehicles owned by the City of Shreveport.

Management Plan of Action: I will contact Accounting and check on our depreciation schedule. As new vehicles/equipment are purchased and put in the system the acquisition cost and depreciation will be included as well as all other pertinent information. In as much as there are approximately 2,000 pieces of equipment in the system it will take some time to correct the existing discrepancies for depreciation/acquisition price.

Timetable: September 30, 2009

3. Controls Over Disposition of Automotive Tires

Criteria: To ensure adequate protection of government-owned assets, the division developed in December 2002 a written guideline requiring that shop personnel disable used tires prior to their disposition. Its objective was to discourage tire misappropriation and improper reuse.

Condition: The owner of a commercial entity alleged that city-owned tires were seen on a commercial vehicle operated by another entity. We were unable to confirm the validity of that allegation. However, we noted that Fleet Services Division operating employees did not always comply with the directive requiring that they physically disable used tires to preclude their misappropriation and reuse.

Effect:

- Inability to adequately identify and account for City-owned assets.
- Potential for fraud, waste, and abuse to occur.

Cause: Deviation from established policies and procedures.

Recommendations: The Deputy Director, Public Works Division, should ensure that employees are thoroughly familiar and comply with established policies and procedures pertaining to disabling tires no longer used.

Management Plan of Action: We have tried on several occasions to contact the individual who filed the complaint regarding City tires on commercial vehicles of another entity with no success. All tires when delivered by the vendor will be entered into our inventory system. When a tire is placed on a vehicle it will be transferred from stock to an assigned vehicle through a work order until disposal of that tire. A procedure for tire disposal will be established that will require a large drilled hole/holes through the tire which will eliminate the COS tire number. All tires disposed of at Fleet Services will be entered in a log sheet indicating date, COS tire number and tire type. These sheets will be scanned and placed in a file on the H drive as an electronic record.

Timetable: March 30, 2009

4. Operational Economy and Efficiency

Criteria: Supervisors are required to develop and enforce effective and efficient time and attendance policies on employees assigned to ensure that applicable daily operations are attained.

Condition: Administration and enforcement of time and attendance policies and procedures in effect during the initiation of our fieldwork were in need of management attention:

- The division superintendent and members of the administrative staff were often unavailable from their respective duties during our frequent visits to the area.
- Administrative personnel were frequently absent. Several of the absences noted were not always documented.
- Time and attendance data on shop employees assigned was being recorded on manual records although time clock devices were available within the facility, but were not being utilized.
- Time and attendance reports were being approved by unauthorized individuals.

Effect:

- Inability to properly justify operational and manpower expenses.
- Deficient or lost productivity.
- Possible negative publicity.
- Possible inefficient use of resources.
- Potential for fraud, waste, and abuse to occur.
- Potential for ineffective and inefficient utilization of manpower resources.
- Goals and objectives may not be achieved.
- Compromised fulfillment of the division's mission and purpose.
- Lack of direction for the division.

Cause:

- Ineffective managerial supervision.
- Personnel were not required to formally account for deviations from attendance policies.

(Auditor's Comment: *The division superintendent resigned from his duties in July 2008.)*

Recommendations: The Deputy Director, Public Works Division, should take appropriate actions to ensure that:

1. Individual time and attendance policies and procedures are adequately monitored and enforced.
2. Time clocks are used to ensure that evidential employee attendance is maintained.
3. Associated manpower expenses are adequately supported.
4. Employee absences are adequately justified and documented.
5. Absence requests and reports are approved by duly designated employees only.

Management Plan of Action: A chain of command has been established to rectify all discrepancies regarding this matter. Time and Attendance policies are in effect. All personnel including office staff are required to punch in/out using the bio-metric time clocks in Solid Waste. A time sheet has been instituted for myself and the Chief Supervisor of Fleet Services which is being maintained by a neutral party. All absences will require a form 24 based on the bio-metric time clock print out eliminating any possible absences not being recorded or charged. A directive has been issued requiring that all forms 24 will be signed by the Superintendent only. The heavy equipment shop uses a manual time card punch system and all punches will be recorded.

Timetable: This discrepancy has already been completed.

5. Asset/Computer System Utilization

Criteria: Verification of physical inventories is scheduled periodically to determine availability and serviceability of available assets and to ensure that proper accountability over them is being exercised. Users often procure industrial devices that simplify and facilitate their inventory tracking operations.

Condition: Inventory control procedures were ineffective and required immediate management attention. The division purchased a handheld bar code scanner system on October 9, 2003 at a cost of approximately \$13,834. However, necessary actions were never taken to activate the related equipment or to coordinate adoption of the service with the city's computer system. Consequently, periodic asset verifications were being conducted manually while the related expense for the bar code scanner system was disregarded. Management had not procured and installed the related software for the scanner system or utilized the system as intended.

Impact:

- Inadequate utilization of assets.
- Failure to improve service opportunities.

Cause:

- Inattention to managerial responsibilities.

Recommendations: The Deputy Director, Public Works Division should take appropriate actions to ensure that:

1. Necessary actions are undertaken to capitalize on the bar code scanner equipment system acquired.
2. The necessary computer software is procured and installed to ensure effective and efficient inventory control practices.

(Auditor's Comment: Corrective action on this discrepancy was initiated by division management personnel in September 2008.)

Management Plan of Action: A Physical Inventory was conducted by Accounting in December. Bar code scanner equipment (printers) were purchased several years ago but the software to operate this system was not purchased. I contacted CCG Systems, who we purchased the Fleet Management/Work Order system from and purchased the software for the bar code/scanner printers. This software has been installed but we are having a problem interfacing the complete system in order for it to operate effectively. We are in contact with both vendors to get the system operational. Once the system is operating it will be necessary to enter bar codes into the system to correlate with stock items and provide a method to automatically remove items from stock electronically.

Timetable: September 2009 to include getting the system operational and entering the bar codes into the system.

6. Lack of Adequate Documentation on Tires Discarded/Retread

Criteria: Development and implementation of accurate record keeping practices provide adequate assurance of an organization's effective and efficient operations.

Condition: The Fleet Services Division did not maintain adequate documentation pertaining to the numbers of tires discarded or reused as retreads. As a result, the division relied on data provided by the tire contractor as its source for justifying payment of related invoices. Consequently, we were unable to accurately determine the validity of charges included on invoices submitted by the contractor, specifically, whether charges for the number of tires purchased back by the City as retreads was accurate.

Effect:

- Payment of invoices with improperly supported charges.
- Inadequate use of financial expenses incurred.
- Potential for fraud, waste, and abuse to occur.

Cause: Deviation from established policies and procedures.

Recommendations: The Deputy Director, Public Works Division, should develop adequate procedures requiring that documentation be maintained on the disposition of all tires; whether they are discarded or recycled as retreads.

Management Plan of Action: The use of retread tires has been eliminated. Fleet Services after evaluating cost and lifespan of tires no longer purchases retread tires. When tires are received a Supervisor checks tires in to ensure that all tires on the invoice are received. They are then entered into our inventory system until they are put on a vehicle or transferred to another shop or location. Once a tire is placed on a vehicle or transferred, it is no longer in the inventory system for fleet services but will show the location of the tire transferred. Our procedure for discarding tires is outlined in item number 3 above.

Timetable: March 30, 2009

7. Lack of Scheduled Tire Maintenance and Rotation Provisions

Criteria: To maximize the reliability, usefulness, and lifespan of tires, a schedule should be established to ensure their periodic rotation and maintenance. Such practices contribute to added lifespan and even wear of the tires.

Condition: The division had not developed a system to ensure that tires are periodically maintained and rotated.

Effect:

- Tires may wear out prematurely because of neglect and lack of periodic maintenance.
- Shortened lifespan of tires may result in higher purchase costs.

Cause: Management oversight.

Recommendations: The Deputy Director, Public Works Division, should establish operating policies to schedule all city-owned vehicles for periodic tire maintenance and rotation procedures. This could ensure the prolonged life and usefulness of related assets.

Management Plan of Action: The majority of our fleet have grip tires on the rear and highway tires on the front subsequently these tires can not be rotated. Any time a vehicle is in the shop it is standard procedure to check for wear on tires and take appropriate action. For the remainder of the fleet we are establishing a procedure that after the vehicle has had its 3rd oil change at our contracted site it will be due for a Preventative Maintenance check (approximately 9,000 miles) and tires will be rotated if applicable.

Timetable: February 28, 2009

8. Review of Employment Records

Criteria: Management is required to maintain appropriate employment files to ensure that current and applicable data is available on all assigned employees. Information maintained in such files is usually associated with wage data, performance evaluations, time and attendance accruals, and other subjects. The accuracy and completeness of records maintained in these files is essential to management officials and employees assigned.

Condition: Review of personnel files on 30 randomly selected employees assigned and maintained by an administrative assistant in the Public Works Division revealed the discrepancies noted below:

- Performance evaluations on seven (23.0%) of the employees were not current.
- The files included records on 14 individuals who were no longer employed by the division.
- Individual position descriptions were not readily available for our review on nine (30.0%) of the files tested. (Further review showed that files maintained by the Fleet Services Division superintendent contained more current information than the “**official**” records cited above.)
- In our opinion, the duplication of manpower effort was redundant and inefficient.

Effect:

- Deviation from established personnel management practices.
- Incomplete current performance evaluation data.
- Incomplete employee files.
- Employee unawareness of performance deficiencies and/or managerial expectations.
- Incomplete basis on which to evaluate employee performance.
- Lack of a documented or formal employee evaluation.
- No written basis for merit increases.
- The duplication of manpower effort was redundant and inefficient.

Cause:

- Failure to properly maintain accurate records on employees assigned.
- Duplication of administrative responsibilities within the division.

Recommendations: The Deputy Director, Public Works Division, should take appropriate actions to ensure that:

1. Performance evaluations are completed and included in related personnel files within prescribed time periods.
2. A tickler system is established that facilitates completion of appraisals when due.
3. Personnel files are adequate and complete on employees assigned.
4. Individual action documents are filed promptly in respective folders.
5. Official files are maintained by a designated entity within the division.

Management Plan of Action: As of this date all Fleet Personnel Records have been re-assigned and all will be handled by the Fleet Administrative staff. Payroll will also be transferred to the Fleet staff. Procedures are being established to ensure files are maintained accurately, timely and organized in a concise manner. A system is being

setup for Employee Evaluation to ensure that all employees have their evaluation done before their review date. A file will be established for Official Files.

Timetable: February 28, 2009

9. Professional Training

Criteria: To ensure that professional results are achieved, various entities ensure that automotive repair employees receive formal training in their careers. Many individuals strive to become certified as experts in their profession.

Condition: The division had no specific guidelines in effect to ensure that adequately trained individuals were hired. Review of personnel files indicated that, although not specifically required, several employees had secured professional excellence certifications in their fields. Therefore, they were entitled to better wages than others.

Effect:

- Stagnant employee motivation.
- Inferior work production.
- Work achievement standards curbed by lack of employee enthusiasm.

Cause: Matter not considered in development of related administrative directive.

Recommendations: The Deputy Director, Public Works Division, should develop a related administrative procedure that encourages the employment of service professionals who have received adequate training exposure for the employment being filled.

Management Plan of Action: A program that is in place for mechanic advancement will be reviewed, evaluated and refined. Steps are already in place to increase morale in the mechanic shop and the night shift has been eliminated giving us tighter control over inferior work production. There are several changes being made to increase enthusiasm and although there has been significant progress this item needs constant attention. Eliminating the 2 shift mentality (night shift versus day shift) is an ongoing process and will be accomplished over time even though significant progress has been made. Outside training for mechanics is a necessity but is often precluded by funding. We are looking at ways to have outside vendors supply some training in their specific areas if feasible.

Timetable: June 30, 2009

IAR 080409-02
January 7, 2009

Prepared by:

Jose B. Lugo, CFE, CGFM
Staff Auditor

Approved by:

Leanis L. Graham, CPA, CIA
City Internal Auditor

c: Mayor
CAO
City Attorney
City Council
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Deputy Director, Public Works Division